



KATHLEEN CONNELL  
Controller of the State of California

December 16, 1998

To the Citizens, Governor, and Members  
of the Legislature of the State of California:

I

am pleased to submit the State of California's *Comprehensive Annual Financial Report* (CAFR) for the year ended June 30, 1998. This report contains all the information needed to fully assess California's fiscal condition.

As California's Chief Financial Officer, I have been extremely encouraged by our state's economic resiliency over the past year. However, for this economic good fortune to continue into the 21st Century, substantial investments will be needed in critical areas such as public education and California's technological and physical infrastructures.

With respect to public education, I share the view of all concerned Californians that economic expansion in our state depends on human as well as financial capital. The high tech industries that are transforming California's economy will require an adaptable workforce with new and responsive skill levels. Providing workers with the requisite skills is an ever-increasing challenge due to the speed at which high tech job requirements are changing. The result has been a series of tremendous gaps between the skills being taught at all levels of the public education system and the practical skill applications needed to succeed in the high tech industries. I remain committed to working with educators, parents, business leaders, and state decision makers at all levels of government to fashion reforms that will effectively address current and prospective workforce needs.

The approach of the 21st Century also brings with it challenges and opportunities for the State of California to revitalize the increasing inadequacies in the infrastructures supporting our informational and physical highway systems.

Successfully incorporating new technologies into California state government will be critical to realizing efficient, effective decision making. This will require fundamental changes in the financial structure of California state government and an infusion of substantial investments to modernize its technological infrastructure. Decisions over the allocation and direction of the State's budget – involving billions of dollars in public funds – should be based on accurate, complete, and contemporaneous information. Reliance on outdated technology costs taxpayers hundreds of millions of dollars each year in waste, inefficiency, and lost opportunities. In order to provide quality service to its citizens, California needs an operational state government that utilizes the same financial and technological tools now widely accepted in the private sector.

Transportation systems, primarily designed and built for the California that existed over a quarter of a century ago, are rapidly deteriorating toward obsolescence. The capacity of our freeways has increased only 7% while the California population increased over 50% during the same period. The result is that traffic congestion now robs California's workers and businesses of more than 300,000 hours every work day. A recent study by the California Business Roundtable estimates the price tag for rehabilitating our physical infrastructure will be approximately \$90 billion over the next ten years.

The time to invest in new infrastructures, whether educational, technological or physical, is now. Research by my office indicates there is a unique window of opportunity over the next ten years as the Baby Boom generation moves through its prime earning years, generating higher tax revenues. Once these workers begin retiring, the high rate of growth will slow. Investing in California's future by preparing all facets of its infrastructure will more than pay off in the form of sustained growth and unprecedented prosperity.

This CAFR is prepared in accordance with nationally recognized standards. It is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this letter of transmittal and my financial overview. The overview presents a summary of financial data that is useful in evaluating the fiscal condition of the State. The Financial Section includes the general purpose financial statements and notes to the financial statements. The Financial Section also includes the combining fund and account group financial statements and schedules, which are presented for the purpose of additional analysis. The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis.

Responsibility for the accuracy of data, and the completeness and fairness of the presentation, including all disclosures, rests with the State. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that fairly presents the financial position and operation of the various funds, account groups, and component units of the State.

This CAFR could not have been prepared without the generous assistance and cooperation of all state agencies. We wish to thank the State Auditor and his staff for their audit of the financial statements contained in this report. Also, I am grateful to my staff for their hard work and professionalism.

Sincerely,

A handwritten signature in black ink, reading "Kathleen Connell". The signature is written in a cursive, flowing style.

KATHLEEN CONNELL  
California State Controller